STRIVE

The Fiduciary Focus

Investment News From a Pro-Shareholder Perspective

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This Week: Strive examines the Big Three's "retreat" from ESG; A look at House Speaker Mike Johnson's record of protecting American investors; An Eye on Energy discusses natural oil rigs; and more.

Straight From Strive

Strive Exposes The Big Three's False Retreat From ESG

Financially-minded investors have been cheering the news: BlackRock, Vanguard and State Street have all pulled back from their stakeholder capitalism commitments following fierce public backlash. They've toned down the rhetoric. They've ditched their ESG playbooks. Some even claim they've supported fewer shareholder proposals.

But have they really? Or is the latest PR campaign just another smoke bomb meant to confuse investors while the Big Three continue to pursue their ESG goals?

Strive thinks it's the latter. And our latest report explains why. From excluding many of their pro-ESG votes on procedural grounds to taking advantage of lax regulatory requirements, the Big Three have found ways to make their stats look good, while continuing to support more ESG policies than ever. For them, it's just a numbers game. For investors, it's their livelihoods.

Read the full report here.

House Speaker Mike Johnson's Record of Protecting American Investors

As newly-elected House Speaker Mike Johnson prepares to take the gavel, we took a look at the little-known congressman's record of protecting American investors and businesses.

Earlier this year, Johnson co-sponsored a bill to overturn the Biden Administration's Department of Labor regulation promoting the use of ESG factors in retirement accounts. The regulation allows fund managers to consider "collateral benefits other than investment returns" in certain circumstances; under the prior rule, fund managers were permitted to consider pecuniary interests alone. The bill passed both the House and Senate, but was vetoed by President Biden in March.

He also co-sponsored the Protect Farmers from the SEC Act, which would exempt farmers from having to report their greenhouse gas emissions in response to the Securities and Exchange Commission's proposed climate disclosure rules. "While federal securities laws already require publicly traded companies to disclose material risks to investors, the SEC's ill-advised climate disclosure rule undermines the materiality standard for environmental policy purposes," another one of the bill's sponsors, Congressman Frank Lucas, wrote last February. "The proposed climate rule is so unwieldy and convoluted that publicly traded companies will be forced to require small, independent, family farms to report on-farm data regarding individual operations and day-to-day activities," thereby harming American agriculture and its ability to compete globally. That bill is still pending.

On protecting American businesses from China, Johnson introduced a bill last month that would prevent foreign entities and governments from funding litigation in the U.S. "This bill prevents foreign actors like China from financing malicious lawsuits, protects critical industries, and prioritizes the interests of Americans in court," Johnson said in announcing the bill, which was praised by the U.S. Chamber of Commerce. A companion bill was also introduced in the Senate with bipartisan support. Both bills remain pending.

Chevron Acquires Hess As Companies Acknowledge Need For Fossil-Fuel Production

Chevron has struck a deal to acquire Hess for $53 billion, the New York Times reported last week. The buyout comes just two weeks after Exxon's $59.5 billion purchase of Pioneer, reflecting consolidation in the energy industry.

These mega-acquisitions by American firms leave the European oil giants companies questioning their next moves. Over the past several years, the European companies had all emphasized their sustainability efforts, much to investors' dismay. According to the Times, BP has a market cap of just $100 billion, nearly half that of Exxon. Analysts fear that the Europeans risk falling even further behind unless they begin to reinvest in fossil fuels, as their American rivals have done.

Florida Adds Morningstar To Divestment List Over Anti-Israel Bias In ESG Ratings

On Thursday, Governor DeSantis placed Morningstar-Sustainalytics on Florida's list of scrutinized companies for using a controversial research methodology that gives lower ESG score to companies that support certain Israeli interests.

"Florida will hold companies accountable for discriminating against Israel," said Governor Ron DeSantis in announcing the move. "We will continue to invest in companies that provide Floridians with the best return on investment and not companies that utilize arbitrary ESG metrics to advance a BDS [boycott, divestment and sanction] agenda."

This is not the first time Morningstar, or the ESG movement at large, has been accused of antisemitism. Earlier this year, the head of the Anti-Defamation League warned that the ESG movement was becoming "a Trojan horse for antisemitism and hate" as shareholder proponents advocated for divestment and penalization of Israeli companies over alleged human rights violations at higher rates than North Korea, Syria, Venezuela, Ethiopia, Russia or even China. He further accused Morningstar of "adopt[ing] policies that would make doing business with the Jewish state a black mark on their ESG ratings"—again a move that appeared uniquely targeted at Israel.

Chicago-based communications company Motorola Solutions, for example, received a low ESG score from Morningstar despite its climate commitments and diversity goals because it sells counterterrorism equipment to Israel to stop suicide bombings in restaurants and buses. According to the nonprofit Foundation for Defense of Democracies, such ratings come with "an extortion-like promise": "We'll consider an upgrade if firms divest from their operations in disputed territories. In other words, cut off basic services to Jews living in Israeli-controlled territory, and we may steer ESG investors your way."

In response, Morningstar disputed that its methodology unfairly targeted Israel and "clarified the human rights guidance that underpins all of our research," but some called the response "misleading" and said Morningstar continues to "penalize companies operating there."

Morningstar has ninety days to respond to the latest allegations. If it does not address the state's concerns, it will no longer be eligible to do business with the state of Florida.

Banks Should Become Climate Police, Regulators Say Without Saying

Last Tuesday, U.S. financial regulators issued a new guidance document instructing banks to focus even more on climate risk.

The Federal Reserve, Federal Deposit Insurance Corp. and the Comptroller of Currency issued the joint guidance directing banks on how to think about climate risk and the shift to a lower-carbon future.

The Wall Street Journal reports that while the agencies claim they aren't dictating how banks lend to the fossil fuel industry and other high-carbon industries, "reading between the lines, that's exactly what they're doing." The guidance requires, for example, that banks manage their balance sheets to account for "shifts in policy, consumer and business sentiment" about climate change, even if those sentiments do not reflect economic or scientific realities.

To be sure, there were ways the bank regulators could have gone further to push climate policies on banks—although doing so likely would have exposed the policies to greater legal scrutiny, given the regulators' limited authority. For example, the regulators expressly declined to adopt a policy that would require banks to commit to transitioning to a net-zero lending policy by any specific date or refuse to lend to new coal projects. These gaps leave significant openings for climate activists and ESG-aligned asset managers to continue to push banks to adopt such goals via private engagements and shareholder resolutions, which have increased dramatically over the past several years.

State Officials Press Proxy Advisors On ESG-Aligned Voting Policies

Last week, eighteen state treasurers and financial officers signed onto a letter to proxy advisory firms Glass Lewis and Institutional Shareholders Services (ISS) over their ESG-aligned shareholder voting polices, the Washington Examiner reports.

The letter to Glass Lewis accuses the firm of supporting 53% of social proposals and 60% of environmental proposals, but 0% of proposals from conservative groups, including financially-focused proposals like asking companies to decline to undergo racial equity audits and other value-destroying initiatives. "This does not appear to be even-handed treatment."

The letter to ISS was perhaps even more critical, accusing the company of dodging officials' questions on how the firm voted. State officials nonetheless said they did their own analysis, and similarly found no evidence that ISS supported any proposals from conservative groups this year.

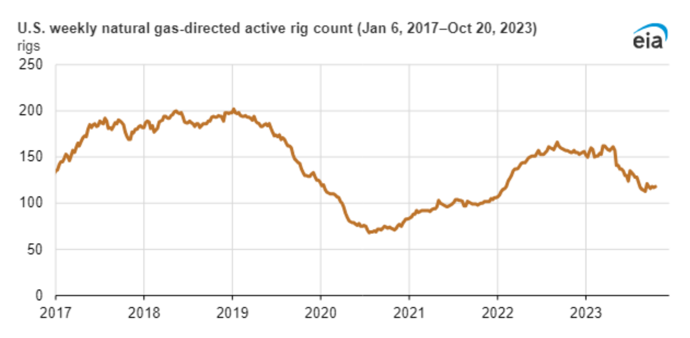
The probe comes as Glass Lewis and ISS face increasing scrutiny over their pro-stakeholder capitalism voting policies. The two companies already wield near-total monopoly power in the proxy advisory industry, controlling 97% of the market. And over the past year, they've gained even more influence, as many large asset managers including BlackRock have now launched voting "choice" programs that allow certain investors to choose among ISS and Glass Lewis policies to vote their shares, rather than deferring to BlackRock's own ESG-aligned policies. These programs have been criticized as providing a "pick your flavor" of ESG type choice to investors rather than true, free-market optionality. The state treasurers' latest probe provides further support for this claim.

An Eye on Energy

Rig Count for Natural Gas Declining

The structural shifts since 2022 have increased global demand for natural gas from the United States. Important drivers of the dynamics included the increased use of gas by industry and power generation, the reliable and secure flow of supply, growing U.S. export capacity (liquified natural gas and pipelines), and geopolitical conditions.

It has been reported that natural gas output in the lower 48 U.S. states has averaged around 103.9 billion cubic feet per day (Bcf/d). According to the U.S. Energy Information Agency (EIA), in the first half of 2023, liquefied natural gas (LNG) exports from the U.S. averaged 11.6 Bcf/d, making the U.S. the world's largest LNG exporting nation. This has happened although the rig count has declined since April 2023. According to Baker Hughes Company, for the week ending October 27, 117 natural gas-directed rigs were active in the U.S. This was a 24% decrease—38 rigs—since the beginning of 2023.



It has been suggested that this decline in active drilling rigs coincides with lower natural gas prices for most of 2023.

How has natural gas production in the U.S. remained high?

Natural gas well productivity is measured by a well's monthly average natural gas output. Natural gas output remains high because of the longer lateral well length (as highlighted during Exxon's October 11 presentation regarding their deal with Pioneer) and rise in number of drilled wells per rig.

Why is this important?

The EIA has said that it expects that natural gas production will rise to 42.1 trillion cubic feet by 2050, that U.S. and Qatar will account for around 80% of new LNG supply to 2030, and that five LNG export projects under construction will have a combined 9.7 Bcf/d of export capacity by 2028.

These are major milestones in the U.S.'s efforts to meet global demand in a very competitive market. In the future, the number of projects approved and completed in the U.S. to increase our export capacity will depend on the regulatory approval process, global business climate, and our ability to compete for buyers for our products.

At the moment, the reduction in rig count has not suppressed the U.S. position in the global natural gas market. We anticipate demand growth for natural gas to continue beyond 2030.

The U.S. LNG industry will seek new markets outside Europe and East Asia and this will evolve energy market's trade, logistical, and geopolitical dynamics for the foreseeable future.

The Best of the Rest

Additional stories about ESG investing, company happenings, and more.

- The "S" in "ESG" should stand for "Security," Citigroup CEO says at investment conference following Hamas terrorist attacks.
- Republican-led states appeal decision in Biden ESG case; coalition is challenging Department of Labor Rule promoting the use of ESG factors in 401(k) accounts.
- Electric vehicle demand expected to falter amid rising interest rates.
- Companies pledge to become "nature positive" as biodiversity is integrated into ESG investing policies.
- Martin Marietta jumps on ESG-linked-executive-compensation bandwagon; publicly-traded materials company will make 20% of executive bonuses contingent on ESG metrics.
- China looks to develop domestic technology and drop American companies; Microsoft, Apple and Adobe all targeted in CCP's "replacement drive."
- State Street increased support for key environmental and social resolutions this year, new study finds.
- How German companies are dealing with China risk; decoupling, diversifying, and preparing for the worst.
- SEC chair tries to pitch corporate America on climate rules; businesses aren't buying it: "We remain deeply concerned," U.S. Chamber of Commerce official Tom Quaadman said.

Strive News

Earlier this month, Bloomberg published a feature on Strive entitled "Ramaswamy Pivots From Anti-ESG Base at Expanding Investment Firm."

The article chronicles Strive's unprecedented rise in the asset management space, and digs into the firm's investment strategy:

> Strive's leaders have become proselytizers, of sorts, of the philosophy that companies should prioritize shareholders' views on operating to maximize profit. That mantra, "shareholder primacy," differs from the World Economic Forum's "stakeholder capitalism," which means companies should take into account how their operations affect a much broader group of people than just investors.

The feature also includes an interview with Justin Danhof, Strive's Head of Corporate Governance, who explained Strive's voting and engagement philosophy. When asked why Strive does not divest from companies that pursue stakeholder capitalism, Danhof explained, "[h]aving our voice in the room is going to be a lot more powerful than taking it out of the discussion." Danhof also highlighted the work that the corporate governance team does to evaluate directors and proposals to determine whether they serve shareholders, or non-financial, non-pecuniary interests instead.

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